

Project Notes

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Balancing Commercial Viability with the Needs of the Poor in the Development of Urban Water Supply and Sewerage Projects

The development of commercially viable infrastructure projects requires the introduction of (at least gradual) tariff reforms and a move toward cost recovery or an efficient pricing regime. Consequently, it is common to find apprehension among elected representatives, academics and bureaucrats when the focus turns to the impact of such projects on the poor. However, significant benefits for the poor may be derived from a commercial orientation. The FIRE(D) Project has worked to explore implementation arrangements that ensure access for low income groups to city-wide systems. This Project Note reviews tariff and subsidy issues, approaches to integrating the needs of low income settlements with city-wide services and policy issues to be addressed in the future.

A review of water and sanitation services in Indian cities highlights the poor condition of these services, inadequate coverage and low standards of service provision. This situation is further aggravated by a lack of customer orientation. While any improvement in this situation will require widespread institutional and financial reforms, special attention has to be paid to approaches to ensure that the poor will gain in equal measure from these changes. Contrary to conventional wisdom, it is possible to ensure access to services for the poor while moving to more commercial orientation in the provision of services.

Financing, Tariffs and Subsidies

To achieve a balance between commercial viability and access for the poor, special attention must be given to the issues of financing, tariffs and subsidies. In the past, most services within slum settlements have been supported with large subsidies. Such subsidies, however, are common not only for the poor but for most of the domestic sector. In fact, while low tariffs are justi-

fied on the grounds of affordability for the poor, these services often do not reach the poor at all. Subsidized systems even prevent wider coverage because future investments become difficult.

It is important to distinguish between infrastructure and consumption charges. Infrastructure charges are levied in lieu of access to municipal water and sewerage networks. With respect to consumption, it is possible to ensure affordable access to the poor through life line blocks at affordable rates through cross-subsidization. Some economists, however, argue against rising block tariffs because they distort price signals. Alternatives such as direct concessions or credits (perhaps through vouchers) to low income communities are often suggested.

However, subsidies on consumption charges are useful only to those poor communities that have gained access to municipal services. To ensure access, city level programs to provide utility networks within low income settlements at "affordable" connection charges are necessary. Three aspects are important in this regard.

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A Total Slum Approach

It has been common to take piecemeal approaches to slum development, and depending upon the funds allocated in a given year, some activities are taken up in different slum areas. This approach, however, does not recognize the overall needs of the slum area with an appropriate plan to raise it to a “normal” development level. Though achieving minor improvements, the area remains a “slum settlement.”

Slum redevelopment efforts in Indore, Ahmedabad and Baroda, however, reflect an approach which focuses on improving the entire slum area in a comprehensive manner, to integrate it with the city’s “normal” housing developments. This represents a shift from “full subsidy spread thinly over all settlements” to “partial subsidy with full improvements in all settlements.”

It then becomes possible to charge residents for the services received, because willingness to pay tends to be higher for individual services at better standards. For example, under the Parivartan Project in Ahmedabad, slum communities pay one third of the full cost of development. It also enables more rational planning at the settlement level, considering terrain conditions and possibilities for commercial development. The experience under slum networking projects suggests that it is possible to reduce infrastructure costs considerably while achieving higher service levels. And because this approach enables the slum settlement to be integrated with “normal” housing, normal property taxes can be levied subsequently, enhancing local revenues. Ultimately this enhances the social status of the settlement.

Definition of Property and Infrastructure Charges

It is important to link the total slum approach to land use and land development regulations. Most cities impose a connection charge for linking a property to the municipal network, and in the interest of equity, it is important that an individual slum house or plot be recognized as a separate property. Then each house becomes eligible for a connection as are other properties, and the slum community is not required to bear the costs of infrastructure provision.

Reduction or removal of subsidies, however must apply to all residents, not only slum dwellers. For example, in Ahmedabad, the connection charges for slum dwellers under the Slum Networking Project (which now includes an individual toilet) may be close to full prevailing tariff, and not the two-thirds subsidy as it is described. This anomaly, though, is the result of the

tenure status and lack of recognition of each slum house as a separate property, and requires a review of the land sub-division regulations and the definition of property under the municipal legislation.

The lack of legal tenure is a major obstacle to enhancing coverage of slum settlements within this framework. In the short term, approaches such as land sharing, which have been used successfully in India and Thailand, should be explored.

Deciding on Appropriate Subsidy Levels

Evidence from municipal programs suggests that considerable subsidies are being poured into slum areas without adequate transparency, accountability or improvement. Subsidies for urban infrastructure should be internalized at the city level or linked to available programs of state and central governments. Subsidies must also be fixed transparently in relation to the overall magnitude of the slum population of the city.

Subsidies should be linked to acceptable minimum standards, as well as availability of total funds to reach the target population within a defined time frame. Financing for infrastructure at standards above this level can then be linked to effective demand and willingness to pay at the community level. In order to make this process transparent, a special fund may be set up which may be used with performance incentives for low income communities. Other sources outside of local budgets, such as the local corporate sector and other government programs, may also be identified to maximize the contribution to such a fund.

**Community-Based Systems
for Management and Credit**

Both domestic and international experience suggest the need for participatory approaches to the provision of services within slum communities. Recent efforts in Ahmedabad and Baroda and projects in Andhra Pradesh provide useful examples. Effort is also necessary to extend participation in the selection of service levels in relation to ability and willingness to pay for services.

Local involvement in planning and management requires strong community management organizations (CMO). Similarly, greater emphasis on payment for services requires building the capacity to pay through community-based credit systems (CCS). CMOs and CCSs provide an institutional base on which a participatory approach can be developed. The role of women

in these institutions will be crucial; not only do basic services impact the lives of women to a greater degree than men, but available evidence indicates that women's participation in CCS has been a critical success factor.

Development of these community-based systems for credit and management must receive priority as both require considerable lead time before mature and responsible organizations can emerge at the local level. It is otherwise common to find a municipal authority ready with engineering plans for large water and sewerage projects without any plans to integrate slum settlements, because the planning and implementation capacity for development within settlements does not exist. It is therefore necessary to ensure that the formation of CMOs, CCSs and developing community consultation processes become routine activities at the local level.

Alternative Approaches to Integrating Needs of Low Income Settlements

It is important to consider not only the provision of infrastructure and services within slum communities, but also the ability to create linkages to macro-level infrastructure, and the placement of responsibility for maintenance and operation of infrastructure and services. Within a project framework, three approaches can be identified to integrate low income settlements with city-wide systems.

Slum Infrastructure as Part of an Integrated Construction Contract

Provision of infrastructure within all slum settlements can be included in the main construction contract for city-level systems. The construction contractor, then, must have the capacity to work with community-based management which will be crucial to ensure proper services. Also, a total slum approach requires the provision of all services (water sewerage, drainage, sanitation, roads and streetlights) in an integrated manner, and the contractor must be willing to adapt to these needs.

Issues of tenure must be addressed before such a contract is let. This approach is most likely to succeed in smaller cities where slums and low income settlements are likely to be less complex in relation to physical and tenure issues. The construction contract under the Tiruppur Area Development Program in southern India includes such a provision. In most other cases, however, it may be difficult to integrate infrastructure for

slum settlements into a broader construction contract.

Parallel Programs for Slum Infrastructure

When integration within one contract is not possible parallel programs may be developed. Linkages between the two activities need to be ensured so that the slum community can connect with the city system easily and the timing of activities is synchronized. It is also essential to integrate financing and subsidy issues with the overall financing framework for city-wide systems.

The Slum Networking Project in Ahmedabad, for example, is being implemented through a partnership among stakeholders — the city government, communities, SEWA Bank, NGOs and private sector sponsors. In Nagpur, under a GTZ project, a parallel program is also envisioned with the involvement of NGOs. Such parallel programs can incorporate the lessons related to community based systems more effectively.

Provision of Slum Infrastructure as Part of a Concession for a Full System

A long term concession which clearly specifies the coverage and standards of services to be achieved over time by the concessionaire is a completely different approach. In India this is a new approach, but it is likely to be attempted in a city in Maharashtra where the possibility of a long term concession is being explored. A few cities in Karnataka have recently signed a Memorandum of Understanding with private operators to incorporate the type of private sector participation which may lead to such an arrangement.

This approach benefits simultaneously from flexibility, the potential for community participation, and the efficiencies of the private sector in providing services. The concessionaire for water and sewerage services in Buenos Aires, Argentina was appointed in 1994 and has shown great flexibility by involving communities and providing infrastructure networks within low income communities. Development costs of new networks are shared among all water users, and the concessionaire has decided to abolish water connection taxes which were found to be too expensive for the newly connected, who were largely from low income communities. Ultimately, this has led to lower costs and better service coverage.

Issues in Institutional Arrangements

A common shortcoming among slum improvement

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low income communities to a broader, city-wide approach. “Scaling up,” however, is often misunderstood, and the city-level approach requires a completely different set of rules. It may be difficult to change rules already put in place to serve a few communities but which are irrelevant for a city-wide approach. In evolving such an approach, several issues must be addressed.

First, there is a need to integrate lessons from the past, and an effective mechanism for integrating these lessons must be developed. Second, the participation of stakeholders is critical, especially city government, community-based management organizations, private sector providers or contractors, community credit systems and NGOs. Often these groups have limited capacity, and institutional arrangements must reflect this fact. Finally, given the complexity of institutional arrangements and the participation of a number of stakeholders, it is critical that the rules are defined up front and the roles of different user groups are clarified from the beginning, and through consultation. At the same time, there is a need for flexibility to allow lessons from actual practice to be incorporated progressively.

The Way Forward

The FIRE(D) Project will continue to explore implementation arrangements that ensure access for low income groups to city-wide systems. State and local governments now need to support evolution of innovative approaches through policy measures such as:

- making explicit efforts to integrate access of low income groups with city-wide water supply and sanitation services;
- linking tax exemptions, fiscal concessions, government guarantees and other support to access for low income groups;
- building the capacity of stakeholders, particularly in low income groups;
- rationalizing local tariff structures; and
- leveraging limited subsidies by setting rules for city-level requirements, rather than only for a few settlements.

As local governments in India move forward to adopt emerging private sector participation and new financing arrangements, it is critical that adequate emphasis be placed on ensuring the access of low income groups to these new systems.

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*This Project Note was written by Meera Mehta, Senior Urban Finance Advisor to the FIRE(D) Project.*

## Indo-US Financial Institutions Reform and Expansion Project - Debt Market Component FIRE(D)

The mission of the Indo-US FIRE (D)Project is to foster the development of a commercially viable urban infrastructure finance system to finance improvements in environmental services for all citizens, including the urban poor. It is being implemented through four objectives:

- Development of commercially viable urban environmental infrastructure projects in selected demonstration cities;
- Development of a commercially viable urban environmental infrastructure finance system;
- Improvement of municipal financial management as well as the administration of environmental services in demonstration cities;
- Strengthening the capacity of public and private sector professionals and technicians to achieve these objectives.

This new approach, which emphasizes commercial viability, enables Indian cities and urban authorities to respond more effectively to the greatest needs: increasing access to services and improving service levels. Significant benefits for the poor, in particular, can be achieved through a commercial orientation.

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Community Consulting International, India  
E 3/4 Vasant Vihar  
New Delhi 110 054, India  
Tel: (91-11) 614-3551 or 614-9836  
Fax: (91-11) 614-1420 or 614-4480

Regional Urban Development Office  
USAID/New Delhi  
B-28 Institutional Area  
New Delhi 110 016, India

Community Consulting International  
1012 N Street, NW  
Washington, DC 20001-4297, USA

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